

BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Milwaukee Water Works, Milwaukee County,
For Authority to Increase Water Rates

Docket No. 3720-WR-107

SUPPLEMENTAL REBUTTAL TESTIMONY OF THOMAS F. SCHRADER
July 19, 2010

1 **Q. Please state your name.**

2 A. My name is Thomas F. Schrader.

3 **Q. Have you previously submitted rebuttal testimony in this proceeding?**

4 A. Yes.

5 **Q. What is the purpose of this supplemental rebuttal testimony?**

6 A. After rebuttal testimony was submitted, Milwaukee Water Works filed a revised rate
7 application, and PSC staff prepared a revised revenue requirement, cost of service study,
8 and rate design. In addition, PSC staff submitted supplemental direct testimony. My
9 supplemental rebuttal testimony responds to these revisions and the PSC's supplemental
10 direct testimony.

11 **Q. Do the supplemental direct testimonies and revised exhibits address the concerns**
12 **raised in your original rebuttal testimony?**

13 A. No. In fact, the supplemental direct testimonies and revised exhibits raise further issues,
14 particularly with regard to the City's use of water utility revenues.

15 **Q. What concerns do the supplemental direct testimonies raise about the City's use of**
16 **water utility revenues?**

17 A. I am concerned about the approximately \$12.5 million of money that the City of
18 Milwaukee proposes to take out of water utility revenues. The City is taking out

1 approximately \$9.5 million from water utility revenues for a payment in lieu of taxes.

2 The City has also expressed its intention to take an additional \$3 million from water
3 utility revenues for the City's general fund. I believe the amounts of these payments to
4 the City are unreasonable, especially as to wholesale customers who do not reside in the
5 City.

6 **Q. Why do you believe the amount of these payments to the City is unreasonable?**

7 As the former President and CEO of Wisconsin Gas Company at the time it entered the
8 water utility business, I am aware of the taxes paid by Wisconsin Gas and other private
9 utilities. Wisconsin Gas did not pay local and school property taxes on its water utility
10 facilities, but rather paid a 3.19% gross receipts tax under Wis. Stats., § 76.28.

11 MWW does not pay a gross receipts tax, and also does not pay local and school
12 property taxes so there is no actual, incurred expense to recover. Rather, it is a matter of
13 reasonableness of the amount and the appropriateness of the allocation of payment.

14 Together, the \$9.5 million for payment in lieu of taxes and the \$3 million from water
15 utility revenues for the City's general fund amount to almost 18 percent of MWW's \$70.5
16 million of gross revenues. In comparison if the 3.19% gross receipts tax was applied to
17 MWW, its tax payment would be approximately \$2.25 million (\$70.5 million in gross
18 revenue x 3.19%).

19 For MWW to charge ratepayers \$9.5 million as a payment in lieu of taxes, when a
20 gross receipts tax would be only \$2.25 million if it was a private utility, is unreasonable
21 and discriminatory to water utility customers located outside of Milwaukee. MWW
22 should not be allowed to claim a utility expense that it did not actually incur, and that is
23 four times greater than the amount it would have incurred if the municipal utility was

1 privately owned. MWW's proposed local and school tax equivalent is not equivalent to
2 anything that a private utility would pay, and it is not equivalent to anything that MWW
3 would collect if the water utility was privately owned.

4 While the amount of the payment in lieu of taxes may arguably make little
5 difference to City of Milwaukee customers who receive the benefit of the payment in lieu
6 of taxes when it is applied to Milwaukee's general fund, it does make a difference to the
7 wholesale customers who are not City residents and who do use municipal services and,
8 therefore, receive no benefit from the payment in lieu of taxes. It would be
9 discriminatory ratemaking to have contract water customers subsidize Milwaukee's
10 general treasury through the amounts proposed by MWW. The only amount wholesale
11 water rates could reasonably include is the equivalent of the gross receipts tax of 3.19
12 percent on the gross revenues associated with wholesale water purchases.

13 **Q. Do you have any other response to the PSC's supplemental direct testimony?**

14 Yes. I'd like to respond briefly to the testimony of Lois Hubert. Ms. Hubert seems to
15 support Milwaukee's intention to divert money from MWW water utility revenues. I
16 believe her testimony is that "earnings on rate base do not belong to the ratepayers but
17 belong to MWW and its owner, the city of Milwaukee and its property taxpayers."
18 (SD12.12, lines 1-2.) As the property of tax payers, it offsets the need for taxes and
19 should be viewed, therefore, in this context as being equivalent to a tax.

20 Very importantly, the PSC must recognize that viewing earnings as belonging to
21 the City will require the Commission to increase its regulatory oversight of MWW in
22 order to fulfill the PSC's responsibility to protect utility customers and ensure that the
23 utility provides adequate utility service. Allowing the City to divert utility earnings for

1 general City purposes may motivate the City to defer utility maintenance, reduce utility
2 investment, or cut utility expenses in any given year in order to generate revenues for
3 other City purposes. This potential will require continual PSC oversight of utility
4 operations.

5 As I said before, if the Commission does permit Milwaukee Water Works to
6 provide earnings to the City, I strongly urge the Commission to place a specific and strict
7 limit on the dollars that can be paid from the utility to the City so it controls the potential
8 for the City to exert pressure on the utility when the City needs revenues.

9 **Q. Does that conclude your testimony?**

10 A. Yes, it does.